

**THE JOHN HANCOCK CHARTER
SCHOOL FOUNDATION**

**FINANCIAL STATEMENTS
AND REPORTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Years Ended June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The John Hancock Charter School Foundation

We have audited the accompanying statements of financial position of The John Hancock Charter School Foundation (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The John Hancock Charter School Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The John Hancock Charter School Foundation as of June 30, 2006 and 2005, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006, on our consideration of John Hancock Charter School Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Squire & Company, PC

July 19, 2006

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

| | 2006 | 2005 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 408,699 | \$ 436,562 |
| Accounts receivable | 23,694 | 19,431 |
| Deposits | 4,980 | 4,980 |
| Current portion of note receivable | 708 | 667 |
| Total current assets | 438,081 | 461,640 |
| Capital Assets, net of accumulated depreciation | 835,888 | 746,541 |
| Note Receivable, less current portion | 59,752 | 60,460 |
| Total assets | <u>\$ 1,333,721</u> | <u>\$ 1,268,641</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 7,172 | \$ - |
| Tuition deposits | - | 1,555 |
| Accrued expenses | - | 105 |
| Accrued payroll liabilities | 49,462 | 37,123 |
| Deferred revenue | 86,458 | 71,198 |
| Current portion of notes payable | 80,364 | 74,362 |
| Total current liabilities | 223,456 | 184,343 |
| Notes Payable, less current portion | 508,513 | 504,723 |
| Total liabilities | 731,969 | 689,066 |
| Unrestricted Net Assets: | | |
| Undesignated | 354,741 | 412,119 |
| Designated for capital assets, net of related debt | 247,011 | 167,456 |
| Total net assets | 601,752 | 579,575 |
| Total liabilities and net assets | <u>\$ 1,333,721</u> | <u>\$ 1,268,641</u> |

The accompanying notes are an integral part of these financial statements.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION
STATEMENTS OF ACTIVITIES

Years Ended June 30, 2006 and 2005

| | 2006 | 2005 |
|---|------------|------------|
| Unrestricted Net Assets: | | |
| Revenues and Support: | | |
| Federal revenue | \$ 80,227 | \$ 225,127 |
| State revenue | 818,081 | 772,169 |
| Tuitions | 24,776 | 19,521 |
| Student fees and activities | 11,762 | - |
| Contributions | 21,366 | 18,169 |
| Fundraising revenue | 2,837 | - |
| Interest revenue | 2,532 | 3,838 |
| Net assets released from restrictions | - | 1,141 |
| Total revenues and support | 961,581 | 1,039,965 |
| Expenses: | | |
| School: | | |
| Salaries | 470,863 | 409,679 |
| Benefits | 141,322 | 129,535 |
| Professional and technical services | 34,808 | 19,498 |
| Purchased property services | 28,603 | 20,804 |
| Other purchased services | 23,877 | 21,350 |
| Supplies and materials | 55,594 | 99,389 |
| Property | 89,966 | 107,382 |
| Other expenses | 32,140 | 25,660 |
| Total school | 877,173 | 833,297 |
| Supporting Services: | | |
| Management and general | 59,800 | 53,986 |
| Fundraising | 2,431 | 1,950 |
| Total supporting services | 62,231 | 55,936 |
| Total expenses | 939,404 | 889,233 |
| Change in unrestricted net assets | 22,177 | 150,732 |
| Temporarily Restricted Net Assets: | | |
| Net assets released from restrictions | - | (1,141) |
| Change in temporarily restricted net assets | - | (1,141) |
| Change in Net Assets | 22,177 | 149,591 |
| Net Assets at Beginning of Year | 579,575 | 429,984 |
| Net Assets at End of Year | \$ 601,752 | \$ 579,575 |

The accompanying notes are an integral part of these financial statements.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION
STATEMENTS OF CASH FLOWS

Years Ended June 30, 2006 and 2005

| | 2006 | 2005 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 22,177 | \$ 149,591 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 79,378 | 77,636 |
| Loss on disposal of capital assets | 5,102 | - |
| Noncash contribution | - | (2,461) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (4,262) | (18,691) |
| Accounts payable | 7,172 | (16,698) |
| Accrued expenses | (105) | (737) |
| Accrued payroll liabilities | 12,339 | (6,970) |
| Tuition deposits | (1,555) | 1,555 |
| Deferred revenue | 15,260 | 71,198 |
| Total adjustments | 113,329 | 104,832 |
| Net cash provided by operating activities | 135,506 | 254,423 |
| Cash Flows from Investing Activities: | | |
| Collection of note receivable | 667 | 1,295 |
| Purchase of capital assets | (157,828) | (50,755) |
| Net cash used by investing activities | (157,161) | (49,460) |
| Cash Flows from Financing Activities: | | |
| Proceeds from long-term debt | 69,620 | - |
| Repayment of notes payable | (75,828) | (38,061) |
| Net cash used by financing activities | (6,208) | (38,061) |
| Net Change in Cash | (27,863) | 166,902 |
| Cash at Beginning of Year | 436,562 | 269,660 |
| Cash at End of Year | <u>\$ 408,699</u> | <u>\$ 436,562</u> |

Supplemental Information:

The School paid interest totaling \$24,058 and \$21,373 for the years ended June 30, 2006 and 2005, respectively. The School paid no income taxes for the years ended June 30, 2006 and 2005.

During the year ended June 30, 2006, the School purchased capital assets totaling \$16,000 by assuming a long-term note payable for \$16,000. During the year ended June 30, 2005, the School received \$2,461 in donated equipment.

The accompanying notes are an integral part of these financial statements.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Activities – The John Hancock Charter School Foundation (the "School") was incorporated on October 9, 2001, and is operated as a nonprofit organization currently involved in elementary and secondary education. The School currently operates one charter school in Pleasant Grove, Utah, with students enrolled in classes from kindergarten through eighth grade. The School also operates a self-funded preschool program. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes – The School is exempt from income tax under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity.

Capital Assets – The School's capital assets consist of purchased and donated land, buildings, and equipment. Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Capital asset additions that exceed \$500 are capitalized and depreciated as determined by management, using straight-line depreciation over two to ten years for equipment and ten to twenty years for buildings and related improvements.

Accounts Receivable – The School's accounts receivable consists of amounts due the School for preschool tuition and for reimbursement of expenses incurred for federal grants and awards. No allowance for doubtful accounts has been established, as the School deems all amounts to be fully collectible.

Donated Services – The School records revenue and a corresponding expense for donated services requiring specialized skills that it would otherwise purchase. During the years ended June 30, 2006 and 2005, the School recognized revenue for donated services and equipment of \$0 and \$2,461, respectively. No amounts have been reflected in the financial statements for other donated services and supplies. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, and Board responsibilities.

Financial Statement Presentation – The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2006 and 2005, the School had only unrestricted net assets.

Revenue Recognition – The primary source of operating funds for the School is derived from federal, state and local funds. The School receives state and local funding based on the number of students enrolled in the charter school. The School receives federal and state charter school grants, which are paid through the Utah State Office of Education. Certain funds are received on a reimbursement basis and accordingly, revenues relating to funds from these sources are recognized when qualifying expenses have been incurred and all other grant requirements have been met.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Allocation of Expenses – Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the School.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and support and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2005 financial statements to conform with the 2006 presentation.

Note 2. Cash

At June 30, 2006, the School reported a cash balance of \$408,699 as compared to a bank balance of \$446,346, of which \$100,000 was covered by federal depository insurance.

Note 3. Capital Assets

Capital assets held by the School at June 30, 2006 and 2005, are summarized as follows:

| | 2006 | 2005 | Depreciable Lives |
|----------------------------|-------------------|-------------------|----------------------|
| Land | \$ 220,879 | \$ 75,356 | N/A |
| Buildings and improvements | 671,418 | 668,618 | 10-20 years |
| Classroom Equipment | 154,052 | 136,481 | 3-10 years |
| | 1,046,349 | 880,455 | |
| Accumulated Depreciation | (210,461) | (133,914) | |
| | <u>\$ 835,888</u> | <u>\$ 746,541</u> | |

Note 4. Note Receivable

During July 2003, the School sold capital assets valued at \$60,000 by accepting a note receivable with an interest rate of six percent. Interest revenue accrued on the note from August 2003 to April 2004, adding to the principal of the note receivable. Monthly payments to be received under this note receivable are \$360 from May 2004 to April 2013. In May 2013, the School will receive the unpaid principal balance of the note.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 4. Note Receivable (Continued)

Future minimum principal payments to be received are as follows:

| <u>Year Ending June 30,</u> | |
|---------------------------------|-------------------------|
| 2007 | \$ 708 |
| 2008 | 752 |
| 2009 | 799 |
| 2010 | 848 |
| 2011 | 900 |
| Thereafter | <u>56,454</u> |
| | 60,461 |
| Current portion | <u>(708)</u> |
| Long-term portion | <u><u>\$ 59,752</u></u> |

Note 5. Notes Payable

During the year ended June 30, 2003, the School financed the purchase of its building by entering into a \$427,500, 20-year note payable to a nonprofit organization, collateralized by its building in Pleasant Grove, Utah. The note bears interest at a variable rate equal to the prime rate, payable in monthly installments of \$2,647. The interest rate from inception through June 30, 2006 was 4.25%; the School incurred \$16,673 and \$17,300 of interest expense associated with the note for the years ended June 30, 2006 and 2005, respectively.

During January 2004, the School agreed to a \$300,000 note payable for building and landscape renovations. The note is an interest-bearing loan from the charter school building sub account within the school building revolving account for charter schools, per Utah Code 53A-21-104(5) and (6) and Rule R277-487. The interest rate on the note is 2.75%. No payments were due on the note from January 2004 to December 2004; the interest on the principal portion of the note was accrued and included in the principal balance of the note. Monthly payments on the note amount to \$5,517; payments are due from January 2005 through December 2009. As of June 30, 2006, the School had received \$269,620 of the loan. The difference of \$30,380 is expected to be received during the year ending June 30, 2007. The loan is to help finance construction and renovation of the School's facilities. The School incurred \$6,935 and \$8,110 of interest expense associated with the note for the years ended June 30, 2006 and 2005, respectively.

In February 2006, the School entered into a \$16,000 note payable for copiers. The term of the note is from February 1, 2006 to January 1, 2010, with monthly payments of \$383 and an interest rate of 7%. The balance at June 30, 2006, was \$14,534.

THE JOHN HANCOCK CHARTER SCHOOL FOUNDATION **NOTES TO FINANCIAL STATEMENTS**

Note 5. Notes Payable (Continued)

Future minimum principal payments to be paid are as follows:

| <u>Year Ending June 30,</u> | |
|---------------------------------|-------------------|
| 2007 | \$ 80,364 |
| 2008 | 83,010 |
| 2009 | 85,753 |
| 2010 | 22,883 |
| 2011 | 18,661 |
| Thereafter | <u>298,206</u> |
| | 588,877 |
| Current portion | <u>(80,364)</u> |
| Long-term portion | <u>\$ 508,513</u> |

Note 6. Related Party Transactions

The School rented storage space from a storage company owned by a Board member. Payments made to this company during the years ended June 30, 2006 and 2005 totaled \$2,639 and \$5,279, respectively. As of June 30, 2006, no amounts were payable to the storage facility.

The School paid a company owned by a Board member \$4,000 for consulting services related to technology during the year ended June 30, 2006. No amounts were payable to this company as of the year ended June 30, 2006.

The School entered into a long-term note payable to purchase capital assets totaling \$16,000 with a company owned by a member of the Board (see Note 5).

Note 7. Retirement Plan

During the year ended June 30, 2005, the School established an SEP-IRA retirement plan for its employees. All employees having two years of service out of the past three years are eligible to participate in the Plan. The School contributes a discretionary amount, as determined by the School's Board, to employee accounts. For the year ended June 30, 2006, the Board elected to contribute an amount equal to 7% of employee gross salaries to the Plan. Employer contributions to the Plan for the years ended June 30, 2006 and 2005 totaled \$20,159 and \$26,583, respectively.



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Board of Directors
The John Hancock Charter School Foundation

We have audited the financial statements of The John Hancock Charter School Foundation as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The John Hancock Charter School Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of The John Hancock Charter School Foundation in a separate letter dated July 19, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The John Hancock Charter School Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance that we have reported to management of The John Hancock Charter School Foundation in a separate letter dated July 19, 2006.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Squire & Company, PC

July 19, 2006



Independent Auditor's Report on Legal Compliance
in Accordance with the *State of Utah*
Legal Compliance Audit Guide

Board of Directors
The John Hancock Charter School Foundation

We have audited the financial statements of The John Hancock Charter School Foundation (the School) (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. As part of our audit, we have audited the School's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2006. The School received the following major state assistance programs from the State of Utah (passed through the State Office of Education):

Minimum School Program

The management of the District is responsible for the School's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter to management. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, The John Hancock Charter School Foundation complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance programs for the year ended June 30, 2006.

Squire & Company, PC

July 19, 2006



Letter to Management

July 19, 2006

Board of Directors
The John Hancock Charter School Foundation

In planning and performing our audit of the financial statements of The John Hancock Charter School Foundation for the year ended June 30, 2006, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 19, 2006, on the financial statements of the School. Also, reportable conditions and material internal control weaknesses, if any, are included in our report dated July 19, 2006, in accordance with *Government Auditing Standards*.

Accounting for Program Funds – We recommend that the School continue to modify its accounting system to track all program expenditures in its accounting information system. The School is required to account for program expenditures by function and object in sufficient detail to complete the Annual Program Report. The current way of accounting for expenses is not meeting this objective.

Views of Responsible Officials – We prefer to provide more information rather than less and wish to continue with our present way of accounting.

Payment of Bills and Other Expenses On-Line – We noted that when bills and other expenses are paid on-line, the financial secretary requires authorization to submit the payment. However, the individual authorizing the payment of the bill should not be the same individual who initiated the original transactions. For example, the Director initiates many of the credit card transactions. Therefore, an individual other than the Director should review the credit card statement and supporting documentation when authorizing payment of the bill on-line.

Views of Responsible Officials – Our system already calls for double approval. The single error mentioned above has been discussed with the responsible official.

Preschool – We invite the Board to consider whether some costs currently paid with state program funds should be allocated to the preschool. Examples of these costs would include utilities, administration, insurance, maintenance, and other general expenses.

Views of Responsible Officials – The suggested changes will be made.

Payroll Liabilities – We noted that FICA and Medicare amounts were not withheld and employer liabilities were not remitted for three employees beginning in January 2006. We encourage the School to resolve this matter as quickly as possible to avoid costly penalties and interest. We are available to assist the School in filing the necessary amended reports and correcting the information in the accounting system.

Views of Responsible Officials – This matter has been corrected. The technical error has been identified and should not reoccur.

The status of these comments will be reviewed as part of your next audit. We recommend management establish monitoring policies and procedures to provide the School with reasonable assurance that the School complies with various state and federal program requirements. Monitoring includes ongoing evaluations, recommendations for improvement, timely response to necessary changes, and periodic reports to management and the Board.

Squire & Company, PC

Squire & Company, PC